

**ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE**

February 4, 2022

1:30 p.m.

DRAFT

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Joshua Revak, Vice Chair
Senator Peter Micciche
Senator Gary Stevens
Senator Elvi Gray-Jackson

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

COMMITTEE CALENDAR

SENATE BILL NO. 159

"An Act relating to unemployment benefits."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 159

SHORT TITLE: UNEMPLOYMENT BENEFITS

SPONSOR(s): SENATOR(s) COSTELLO

01/18/22	(S)	PREFILE RELEASED 1/14/22
01/18/22	(S)	READ THE FIRST TIME - REFERRALS
01/18/22	(S)	L&C, FIN
02/02/22	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/02/22	(S)	Scheduled but Not Heard
02/04/22	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

MELODIE WILTERDINK, Staff
Senator Mia Costello
Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Presented the changes from version B to version I of SB 159 and delivered a PowerPoint.

PATSY WESCOTT, Director

Division of Employment and Training Services

Department of Labor and Workforce Development (DOLWD)

Juneau, Alaska

POSITION STATEMENT: Answered questions and provided information during the hearing on SB 159.

LENNON WELLER, Economist; Actuary

Unemployment Insurance (UI) Trust Fund

Department of Labor and Workforce Development (DOLWD)

Juneau, Alaska

POSITION STATEMENT: Responded to questions during the hearing on SB 159.

SCOTT CENTORINO, Senior Fellow

The Foundation for Government Accountability

Naples, Florida

POSITION STATEMENT: Invited to testify on SB 159.

SHAWNDA O'BRIEN, Director

Division of Public Assistance

Juneau, Alaska

POSITION STATEMENT: Provided information and answered questions during the hearing on SB 159.

ACTION NARRATIVE

[1:30:09 PM](#)

CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 1:30 p.m. Present at the call to order were Senators Stevens, Gray-Jackson, Revak, and Chair Costello. Senator Micciche arrived soon thereafter.

SB 159-UNEMPLOYMENT BENEFITS

[1:30:46 PM](#)

CHAIR COSTELLO announced the consideration of SENATE BILL NO. 159 "An Act relating to unemployment benefits."

She noted that this was the first hearing and there was a committee substitute (CS) for the committee to consider.

[1:31:10 PM](#)

SENATOR REVAK moved to adopt the Committee Substitute (CS) for SB 159, work order 32-LS1313\I, as the working document.

CHAIR COSTELLO objected for discussion purposes.

[1:31:34 PM](#)

MELODIE WILTERDINK, Staff, Senator Mia Costello, Alaska State Legislature, Juneau, Alaska, presented the changes from version B to version I of SB 159:

[Original punctuation provided.]

Sec. 3 - AS 23.20.350(e) Page 2, Lines 17-31, & Page 3, Lines 1-12

Version I revises the unemployment benefit duration scale by starting at 5.00 percent instead of 7.00 percent, with 14 weeks of benefits instead of 12 weeks. It extends the scale to a total of 26 weeks from 20 weeks.

Sec. 4 - AS 23.20.350(g) Page 3, Lines 13-16

Version I changes the definition used for "state average unemployment rate" from the average seasonally adjusted unemployment rate for the third quarter of the calendar year, to the average seasonally adjusted unemployment rate for the most recently completed quarter.

[1:32:18 PM](#)

SENATOR MICCICHE joined the committee.

[1:33:37 PM](#)

CHAIR COSTELLO removed her objection. Finding no further objection, version I was before the committee.

[1:33:59 PM](#)

MS. WILTERDINK introduced SB 159 reading the sponsor statement for SB 159:

Unemployment insurance exists to provide Alaskans with necessary income when we are between jobs. The State of Alaska's current system determines how many weeks of benefits each Alaskan receives based on work history. Looking at the first four of the last five quarters, an individual who worked during all of them would receive more weeks of benefits than someone who

worked seasonally or recently entered the workforce but was laid off.

By basing this critical lifeline on prior work history, the current unemployment system does not take into account whatsoever whether there are actually jobs available.

Instead of allotting weeks of benefits based on past work, Senate Bill 159 would base weeks of benefits on the unemployment rate—tying the duration of benefits to whether there are employment opportunities or not. SB 159 does not change the weekly dollar amount of benefit each individual is eligible to receive, just the length of time the benefit is available.

When there are few jobs available, whether someone worked annually or seasonally over the past year does not matter—finding a new job will be difficult. Similarly, when the economy is growing and many jobs are available, finding employment is easier. SB 159 would treat all Alaskans who are facing unemployment equally by considering the job market they are facing when determining the duration of benefits.

Determining weeks of unemployment benefits on whether jobs are available would save valuable resources when jobs are abundant in order to distribute a greater number of weeks of benefits to every Alaskan when jobs are difficult to find.

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SENATOR STEVENS asked if the benefit is tied to the type of job a person had as well as the fact that they are unemployed. He related that in Kodiak, jobs are readily available during the fishing season because the cannery almost always has openings, at least on the slime line. However, an unemployed accountant may not want to take that kind of position.

MS. WILTERDINK answered that the unemployment system does not look at the type of job and the bill does not address that issue. She deferred further explanation to Patsy Westcott who is familiar with state and federal laws and may know whether or not that type of distinction would be legal.

SENATOR STEVENS narrowed his question asking if an unemployed person could turn down a job and still receive unemployment benefits.

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PATSY WESCOTT, Director, Division of Employment and Training Services, Department of Labor and Workforce Development (DOLWD), Juneau, Alaska, asked him to restate the question.

SENATOR STEVENS related his experience that jobs are readily available in his community during fishing season. He asked if an individual who is unemployed has to apply for jobs for which they are overqualified.

MS. WESTCOTT answered that all states have provisions in their laws regarding refusal of suitable work. If somebody refuses a legitimate job offer, the division looks at the suitability of the work that was offered and whether or not the individual has the skillset, training, or education to perform the work. If the division determines the work is suitable for the individual, their eligibility to receive benefits is affected. Similarly, if the division determines the job offer was not suitable, the individual would be allowed benefits.

1:39:40 PM

CHAIR COSTELLO asked if she could provide data on the unemployment rates during different periods and the duration of benefits that Alaskans received during those specific periods of unemployment.

MS. WESTCOTT agreed to follow up with the information.

CHAIR COSTELLO asked her to briefly explain the existing program for unemployment benefits.

MS. WESTCOTT asked if she was asking how the duration of benefits is calculated or for an overall explanation of the unemployment insurance program.

CHAIR COSTELLO replied the calculation for the duration of benefits

MS. WESTCOTT explained that the duration of benefits calculation is based on the wages an individual earned in their base period, which is the first four of the most recent five quarters at the time an individual files for unemployment insurance. A ratio methodology is applied to determine the maximum number of weeks

an individual would be eligible. The maximum duration is 26 weeks and the minimum duration is 16 weeks. An individual whose wages are consistent from quarter to quarter will be assigned a higher duration of benefits than an individual whose wages are inconsistent over the base period. She noted that this statutory language predates her 28 years with the department.

[1:44:32 PM](#)

SENATOR GRAY-JACKSON referred to Senator Steven's question about job suitability. She asked what the definition is for "suitable" and whether a job on the slime line in a cannery would be a suitable job for an accountant.

MS. WESTCOTT replied it is not a simple yes or no answer because every case is individualized. However, the department tries to place people in a similar position or occupation moving forward.

[1:46:30 PM](#)

CHAIR COSTELLO reminded the committee that SB 159 solely deals with the duration of the benefit, not the monetary amount of the benefit.

SENATOR GRAY-JACKSON asked for the agency's definition of suitable.

MS. WESTCOTT agreed to provide the factors the department looks at in determining suitability of work.

[1:47:28 PM](#)

SENATOR MICCICHE asked if the size of the benefit ranges dramatically if a person earned \$75,000 per year versus a person who earned \$30,000 per year.

MS. WESTCOTT answered that the size of the wage earned during the base period does affect the size of the weekly benefit. The range is from \$56 per week to \$360 per week.

CHAIR COSTELLO advised those who were following along that the documents attached to the bill included a calculation worksheet for the weekly benefit amount and duration along with a benefits table.

[1:51:47 PM](#)

SENATOR STEVENS mentioned anecdotes he'd heard since Covid about people who take unemployment but have no intention of returning to work. He asked if those stories are accurate.

MS. WESTCOTT answered that she asked the department's research and analysis section to do a study on what is being referred to as the "great resignation" because the division knows that Covid presented an opportunity to examine one's life and some individuals decided to not return to the workforce. She said that is a personal decision, but it does affect their ability to collect unemployment insurance. A long-standing principle of eligibility is that a person must be able and actively seeking work.

SENATOR STEVENS asked how the division knows whether or not someone is actively seeking work.

MS. WESTCOTT explained that individuals are required to conduct weekly work searches and report those searches to the division every week that they file for benefits. The division, through the reemployment eligibility and assessment program, calls people in to ensure that they are doing more than just going through the motions of looking for employment. If the auditors determine there is a need, the benefit control unit will conduct an investigation.

SENATOR STEVENS said he appreciates that the division uses auditors and investigators to ensure that the searches are valid and the filings are legitimate.

1:56:23 PM

SENATOR GRAY-JACKSON asked what the state and employee each contribute toward unemployment insurance.

MS. WESTCOTT replied it is a 73/27 split with the employer paying 73 percent and the employee paying 27 percent.

CHAIR COSTELLO asked if the employer contribution has ever been reduced.

MS. WESTCOTT replied the tax rate fluctuates from year to year for both the employer and employee depending on the cost of benefits in previous years. She deferred further explanation of the tax rate to Lennon Weller.

1:59:00 PM

SENATOR STEVENS asked if the unemployment insurance fund was healthy and what assurance there was that it would continue to be sufficient to pay benefits.

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LENNON WELLER, Economist; Actuary, Unemployment Insurance (UI) Trust Fund, Department of Labor and Workforce Development (DOLWD), Juneau, Alaska, answered yes the (UI) Trust Fund is fully solvent and has the ability going forward to absorb a large majority of potential costs. The fund balance at the end of December 2021 was \$396.7 million, which is equivalent to just over a 3 percent reserve ratio. The target reserve ratio is 3-3.3 percent.

SENATOR STEVENS, noting that the current governor put funds into the budget that were not expected, asked if the UI trust fund was untouchable for anything other than benefits.

MR. WELLER replied any entity can deposit money into the fund but once in the fund, the money may only be withdrawn to pay UI benefits.

SENATOR STEVENS asked for assurances the money in the UI trust fund is not "sweepable."

MR. WELLER stated that those funds are untouchable by federal law.

CHAIR COSTELLO turned to invited testimony.

[2:02:13 PM](#) change

SCOTT CENTORINO, Senior Fellow, The Foundation for Government Accountability, Naples, Florida, stated that he was also appearing in his capacity as a visiting fellow with the Opportunity Solutions Project (OSP). Previously he was an assistant attorney general in Louisiana. He stated his intention to add color to the effects of SB 159 and the experiences other states have had.

MR. CENTORINO stated that his review of Alaska's tax policies confirmed his suspicion that Alaska is ranked near the top of nearly every list of pro-business, pro-worker states. Alaska has shown that being a pro-business state is a matter of principles and policy. He highlighted that The Tax Foundation has ranked Alaska number three among states for its business tax climate. Policies such as no income tax are a deliberate choice that clearly say that Alaska is open for business. New businesses and workers are welcome. He offered his view that pro-business, no income tax states like Florida and Tennessee are Alaska's only competitor. They have no income tax and already do what SB 159 proposes. They index the duration of unemployment benefits to the unemployment rate.

2:04:45 PM

MR. CENTORINO recapped the reforms in SB 159. It sets the base of unemployment benefits to 14 weeks when the state's unemployment rate is lower than 5 percent; it adds a week of benefits for every .5 percent increase in the unemployment rate; and the maximum duration of benefits is 26 weeks when the unemployment rate is 10.5 percent or higher. Benefits rise and fall with the unemployment rate.

MR. CENTORINO discussed the effects SB 159 may have. First, he said indexing has been shown to get people back to work as much as twice as fast as systems that do not index. Less time collecting benefits is better both for business and workers. The longer an individual is unemployed, the more likely it is they will fall into long-term dependency and the harder it is to find work. Second, based on the experience in other states, SB 159 will strengthen the state's UI trust fund. Over the last two years the fund has fallen 20 percent from more than \$500 million to less than \$400 million. Indexing will help with that. He reported that states that index are 84 percent more solvent than states like Alaska that do not. Based on the solvency of their trust funds they have also weathered the pandemic much better. Finally, SB 159 will help lower taxes on businesses and workers. The Tax Foundation ranked Alaska 43rd on unemployment insurance taxes. As a percentage of total wages, the UI tax rate in Alaska is 0.86 percent. Only six states have unemployment tax rates that are higher. The rate in Florida is 0.10 percent and the rate in Tennessee is 0.14. He said Idaho also indexes benefits and its rate is about half the Alaska rate.

MR. CENTORINO encouraged the committee to support SB 159, thereby making Alaska more pro-business and pro-worker.

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CHAIR COSTELLO asked whether the UI trust funds in states that implemented indexing prior to the pandemic fared better than states that did not index.

MR. CENTORINO recounted that Florida began indexing in 2011 out of desperation because its trust fund was deep in the red. Now it is one of the most solvent UI trust funds in the nation and it weathered the pandemic well. The UI trust funds in North Carolina and Tennessee also fared well during the pandemic. He said states that index are able to weather unexpected emergencies better because flexibility is built into indexing.

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CHAIR COSTELLO asked him to talk about the differences between the existing unemployment system versus the system the bill contemplates and why he would argue that indexing is a smarter approach to address unemployment benefits.

MR. CENTORINO answered that the existing system looks only at the past whereas SB 159 proposes a system that looks at both the present and future job prospects of the benefit claimant. Alaska's current system, while somewhat unique, is more similar to the one-size-fits-all approach that most states use. SB 159 proposes a system that is responsive and reflective of Alaska's dynamic economy.

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CHAIR COSTELLO asked what unemployment insurance is and is not supposed to be.

MR. CENTORINO replied that it is meant to be a temporary supplement for a worker who is moving from one job to the next. It is not designed or meant to be a permanent or complete replacement of their wages.

[2:15:33 PM](#)

SENATOR MICCICHE directed attention to the handout in the bill packet from the Foundation for Government Accountability (FGA) that shows [how each state's UI trust fund balance changed from January 2020 to November 2021.] He noted that most of the states that are underwater are fairly blue and said he presumes they have more lenient unemployment insurance policies. However, Texas is an outlier; it is a red state and the balance of its UI trust fund declined 392 percent over that timeframe. He asked if it was policy, Covid policy, or unemployment insurance policy that accounts for that precipitous decline during the pandemic.

MR. CENTORINO answered that FGA is working to identify the reason the Texas UI trust fund is in this situation. He guessed (and asked to not be held to it) that the tax rates did not reflect the reality of the benefit duration. Texas does not index and has a similar benefit duration calculation as Alaska, and its unemployment taxes are much lower. By comparison, Florida lowered its unemployment tax rates after it started indexing.

SENATOR STEVENS asked what it means to index and how SB 159 changes the approach to indexing.

MR. CENTORINO explained that indexing connects the duration of benefits to the unemployment rate in the state instead of basing duration of benefits on past work.

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CHAIR COSTELLO asked Ms. Wilterdink to proceed.

2:19:57 PM

MELODIE WILTERDINK presented the PowerPoint titled, Senate Bill 159 "An Act relating to unemployment benefits." She directed attention to the chart on slide 2 that shows two workers who each earned \$48,000 in the past year. The division looks at wages earned in the first four of the last five quarters to calculate the amount and duration of the benefit. Worker 1's income was consistently spread through all four quarters whereas worker 2's income was seasonal. Under the current UI system, worker 1 would receive 26 weeks of benefits and worker 2 would receive just 20 weeks. She asked, "Why do we have a system that treats these two people differently."

MS. WILTERDINK stated that SB 159 takes the job market into account and gives individuals who are unemployed at the same time the same duration of benefits. She directed attention to the table on pages 2 and 3 of the bill that shows the new scale that SB 159 proposes. For example, if the average unemployment rate is below five percent, the maximum duration of benefits is 14 weeks. For each 0.5 percent increase in the unemployment rate, another week of benefits is added. The cap is 26 weeks when the unemployment rate is above 10.50 percent.

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MS. WILTERDINK directed attention to the graph on the right side of slide 5 and pointed out that with the exception of Covid, there has been a consistent decrease in Alaska's seasonally adjusted unemployment rates over the last ten years. She noted that in in early 2012 the rate was over seven percent but by 2019 it had dropped below six percent. She directed attention to the table on the left side of slide 5 that shows the quarterly average unemployment rate for UI applicants throughout the same timeframe. She explained that the last entry, which is 5.9 percent, reflects the seasonally adjusted average unemployment rate for October through December of 2021. If SB 159 were in place, the department would average the 5.9 percent [and the last three quarterly rates on the line above] to arrive at 16 weeks of benefits.

MS. WILTERDINK restated that SB 159 does not change the amount of the weekly benefit. She pointed to the weekly benefit calculation worksheet depicted on slide 6 and explained that the first two sections of the worksheet would remain unchanged. It is the third section that would no longer be used; it determines duration of benefits by calculating earnings ratio. Section 5 of the bill repeals AS 23.20.350(g)(2), which is the reference to the earnings ratio calculation.

[2:24:26 PM](#)

CHAIR COSTELLO noted that Ms. Westcott indicated that a person who willingly leaves their job is not eligible for unemployment benefits. However, businesses and individuals from nearly every sector of the economy are saying they are having trouble finding people to take available jobs. She noted the current low unemployment rate and asked if the unemployment rate calculation accounts for those individuals who are unemployed by choice.

MS. WILTERDINK offered her understanding that individuals who are unemployed by choice are not counted; the unemployment rate includes those individuals who are actively seeking employment in the job market.

CHAIR COSTELLO said that was her assumption but she wanted it clarified.

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SENATOR GRAY-JACKSON summarized her understanding that the duration of benefits is based on inflation and it applies to all applicants.

MS. WILTERDINK confirmed that the duration of benefits would be based on the unemployment rate for the previously ended quarter. Everyone who applies in that timeframe/job market receives the same weeks of benefit.

SENATOR GRAY-JACKSON restated the point saying, "The number of weeks based on inflation is applicable to anyone who applies for unemployment benefits."

MS. WILTERDINK restated, "It is the unemployment rate of the previous quarter that is going to apply to everyone who is applying at that time."

SENATOR STEVENS asked how indexing and seasonal workers are connected.

CHAIR COSTELLO answered that whether a person works seasonally or year-round is a separate issue than indexing. Under the current system a seasonal worker receives fewer weeks of benefits than a year-round worker who earns the same annual wage. She said it is not fair to penalize workers who earn their income in a shorter period of time. SB 159 treats both types of workers the same.

CHAIR COSTELLO continued to explain that SB 159 also eliminates the current system that bases duration of benefits on a worker's previous earnings. The bill instead adopts indexing, which ties the number of weeks a person may receive unemployment benefits to the unemployment rate. She said she believes indexing makes sense, but she would like Shawnda O'Brien to talk about what happens to an individual who has received unemployment benefits for 26 weeks and is still unable to find a job.

2:31:31 PM fix

SHAWNDA O'BRIEN, Director, Division of Public Assistance, Juneau, Alaska, explained that the division has two programs that are designed to help both employed and unemployed individuals. These are the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF) program. Both programs require individuals to either be seeking employment or be working a certain number of hours a week.

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SENATOR MICCICHE said he supports indexing but he wonders what everyone is missing when they look at the question of why businesses are having trouble finding workers to fill even high paying jobs such as those on the Slope that can pay \$100,000 a year.

CHAIR COSTELLO asked Ms. Westcott to respond.

MS. WESTCOTT deferred to Mr. Weller who was part of the research and analysis team that was looking into the issue of the great resignation and the workers shortages.

2:34:44 PM

MR. WELLER said it is a complicated question and the answer involves a variety of factors including: skill mismatches, geographic mismatches, and individual household circumstances. He added that at any moment in time there is always a certain amount of frictional and cyclical unemployment but it is heightened now, primarily because of the pandemic.

SENATOR MICCICHE restated that he believes there is something else contributing to the current situation where relatively high paying jobs are going unfilled. Turning to the question of indexing, he asked about the idea of basing the index on the different geographic and economic areas of the state.

MR. WELLER said it is a good question because the local economies throughout the state vary significantly. Some areas, such as Skagway, are more subject to seasonal swings than more urban and developed areas like Anchorage and MatSu where the unemployment rate tends to be much lower and more stable. He suggested that if individuals are considered based on geographic location, the local labor market attached to the area would be important.

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CHAIR COSTELLO highlighted that the balance of the UI trust fund decreased during Covid, and stated her belief that indexing would cushion such declines and help unemployed workers in the future. She asked how long it would take before the trust fund became an unfunded liability if the state were to experience pandemics in the future similar to the last two years.

MR. WELLER replied he had not done a stress test with that distinction, but the system is structured to account for costs borne by the system and it is recession-ready due to the reserve ratio. Benefit costs were dropping in the weeks leading up to Covid, largely because of the benefit schedule in statute, which is not indexed. He said what we have seen over time in real terms is a reduction in those benefit costs. That has driven costs down and the expectation is that this will not change in the future unless the statute changes.

CHAIR COSTELLO pointed out that the bill will increase benefits for seasonal workers. She said that will be an added cost to the trust, but it is balanced by the sliding scale based on the unemployment rate.

SENATOR STEVENS mentioned resignations in school districts across the state due to health concerns related to Covid. He asked Mr. Weller to comment on what the future holds for the state.

MR. WELLER said the research and analysis team has been focused on that question and he did not believe anyone had quite put a finger on the reason or solution. He posited that it would take

years to play out and probably would not be uniform across regions, industries, or occupations.

SENATOR STEVENS said he would appreciate the legislature being kept up to date on what the research and analysis team finds.

CHAIR COSTELLO held SB 159 in committee.

[2:45:16 PM](#)

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 2:45 p.m.